

## CHAPTER ONE. ORGANIZATION, FUNCTIONS AND GENERAL PROVISIONS

### Subchapter 1.03 Investment Policy

#### GENERAL PRINCIPLES

**1.03.010. Purpose.** The purpose of this statement is to set forth the policies guiding prudent investment of temporarily idle funds of the Town of Colma and to establish guidelines and objectives for suitable investments including: delegation of authority, prudence, monitoring and reporting, policy review, diversification, eligible securities, safekeeping, and collateralization, selection of depositories, brokers/dealers, glossary of terms, and forms utilized. [Adopted Res. 2000-75, 12/13/2000]

#### **1.03.020. Funds Covered by this Policy.**

a. This investment policy shall apply to all financial assets, investment activities, and debt issues of the Town of Colma (except as provided in the next paragraph) including the following fund types:

- i. General Fund
- ii. Special Revenue Funds
- iii. Debt Service Funds
- iv. Capital Projects Funds
- v. Internal Service Funds
- vi. Trust and Agency Funds

b. The policy does not cover funds held by the Public Employees Retirement System, funds of the Deferred Compensation program, or any funds for which the City Council has specifically authorized an investment policy. [Adopted Res. 2000-75, 12/13/2000]

**1.03.030. Prudent Man Rule.** Each investment shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital and income to be derived. [Adopted Res. 2000-75, 12/13/2000]

#### **1.03.040. Objectives.**

a. It is the objective of this policy to provide a system which will accurately monitor and forecast revenues and expenditures so that the Town can invest temporarily idle funds to the fullest extent possible, consistent with the

policies stated herein. The temporarily idle funds shall be invested in accordance with provisions of California Government Code Section 53600 et. seq.

b. The Town adheres to conservative investment philosophies including investment of all idle cash, buying and holding until maturity, preservation of principal at the risk of yield, and not 'actively' trading the investment portfolio.

c. This Policy specifically prohibits trading securities for the sole purpose of speculating on the future direction of interest rates. It further prohibits reverse repurchase agreements, use of derivative products, and/or leveraging of the portfolio.

d. The Town shall insure the safety of invested funds by limiting credit and interest rate risks. The three primary objectives of the Town's Investment Policy are, in order of priority:

i. Safety. Safety of principal is the foremost objective of the Town of Colma Investment Policy. Safety and the minimizing of risk associated with investing refers to attempts to reduce the potential for loss of principal, interest or a combination of the two. The Town insures safety of its invested idle funds and limits credit and interest rate risks by the following principals, each of which is detailed within the body of the Investment Policy:

- A. Investing only in those instruments that are generally accepted as safe investment vehicles for local government as authorized by this Policy;
- B. Pre-qualifying the financial institutions and limiting broker/dealer to primary dealers with order desks located in California,
- C. Diversifying the investment portfolio as

prescribed within this Policy,

- D. Structuring the portfolio such that securities mature to meet the Town's cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to their maturation,
- E. Limiting the weighted average maturity of the portfolio to two years, and
- F. Physically keeping the investment instrument in a safe and secure location.

ii. *Liquidity.* Liquidity is the second most important objective of the Town's Policy. Liquidity refers to the ability to convert an investment to cash promptly without loss of principal and minimal loss of interest. For example, this is accomplished by investing either in the Local Agency Investment Fund (LAIF) with 24-hour fund availability, or investing in securities with active secondary or resale markets.

iii. *Yield.* Yield on the Town's portfolio is last in rank among investment objectives. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

[Adopted Res. 2000-75, 12/13/2000]

#### **1.03.050. Diversification.**

- a. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall portfolio shall be designed and managed with a degree of professionalism worthy of the public trust.
- b. The Town will diversify use of Class Two investment instruments to maximize its policy objectives and avoid incurring

unreasonable risks in overinvesting in specific instruments, individual financial institutions or maturities.

#### **c. Diversification**

The investments shall be diversified by:

(1) Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities or local government investment pools);

(2) Limiting investment in securities that have higher credit risks;

(3) Investing in securities with varying maturities; and

(4) Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (such as the California Local Agency Investment Fund), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

[Adopted Res. 2000-75, 12/13/2000, Res. 2007-51, 9/12/07]

### **OPERATIONS**

#### **1.03.110. Delegation of Authority and Responsibilities.**

a. *City Council.* The City Council assumes direction and ultimate authority over all Town investments. The City Council shall be and is the policy-setting board for the Town of Colma. The City Council shall, at least annually, review the Investment Policy and make such changes to the Investment Policy as it shall deem proper. On a monthly basis, the City Council shall receive, review and accept the Monthly Investment Report submitted by the City Manager.

b. *City Treasurer.* The City Council delegates specific investment authority to the City Treasurer, as specified herein, and assigns management and monitoring responsibilities for the Town's investment program to the City Treasurer. The City Treasurer shall direct the investment of the Town funds in accordance with the Prudent Man Rule, principles of sound

treasury management, all applicable laws, and this Investment Policy. Specifically, and without limiting the foregoing:

i. The City Treasurer may, without prior approval of the City council, invest any of the Town's funds in any Class One Investment, subject to the criteria set forth herein in section 1.03.210.

ii. The City Treasurer may recommend that the Town invest in any Class Two Investment, and the City Council may, in its sole and absolute discretion, approve the same, subject to the criteria set forth in section 1.03.210.

iii. The City Treasurer may delegate responsibilities to professional portfolio administrators approved by the City Council, and such persons shall have the same investment authority as the City Treasurer.

c. *City Manager.* The City Manager shall be responsible for providing day-to-day accounting and cash management functions of the Town; taking custody of Town funds; transferring funds from or to investment vehicles approved by the City Treasurer, and submitting a Monthly Investment Report to the City Council.

[Adopted Res. 2000-75, 12/13/2000]

**1.03.120. Transfer Authority.** Two of the following four officials may transfer funds up to \$5,000,000 to or from an investment account: City Manager, Assistant City Manager, City Treasurer, and Mayor. Each such transfer must be reported to the City Council, in writing, within thirty days. [Adopted Res. 2000-75, 12/13/2000; Amended Res. 2003-34, 6/25/2003 Amended Resolution 2008-62, 11/12/2008]

**1.03.125. Check-signing Authority.** All checks on the Town's depository accounts shall require two signatures. Any two of the following officials may sign a check or draw funds on any Town account: City Manager, Assistant City Manager, City Treasurer, Mayor, and Mayor Pro Tempore.

[Adopted Res. 2003-34, 6/25/03]

**1.03.130. Monitoring and Reporting.**

a. The City Manager shall routinely monitor the contents of the portfolio and shall file with

the City Council a Monthly Investment Report, which shall include the following:

- (1) Type of Investment
- (2) Beginning Balances
- (3) Purchases During the Month
- (4) Maturities or Sales During the Month
- (5) Ending Balances

b. At least annually, the City Manager shall file with the City Council an Annual Investment Report, which shall include the information required of a Monthly Investment Report, and the following:

- (1) Maturity Date
- (2) Interest Rate
- (3) Weighted Average Yield
- (4) Face Value or Purchase Cost
- (5) Market Value
- (6) Interest Earned During the Month
- (7) Interest Earned to Maturity
- (8) Cash Flow Projection for the Following Month
- (9) Summary of Cash Invested to Total Cash Balances
- (10) Comparative Statistics by Fiscal Year
- (11) Reconciliation of Cash & Investments to General Ledger Balances
- (12) Schedule of Investments Beyond 5 (Five) Years

c. Each time an investment transaction is made, an "Investment Transaction Record" form shall be prepared by the Accountant and approved by the City Manager or City Treasurer. Copies of the form are to be distributed to the City Manager or City Treasurer.

[Adopted Res. 2000-75, 12/13/2000; Amended by Res. 2003-34, 6/25/03]

#### **1.03.135 Internal Controls**

a. The City Manager is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town of Colma are protected from loss, theft or misuse. Details of the internal controls system shall be documented in an investment procedures manual and shall be reviewed and updated annually. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

b. The internal controls structure shall address the following points:

- (1) Control of collusion
- (2) Separation of transaction authority from accounting and recordkeeping
- (3) Custodial safekeeping
- (4) Avoidance of physical delivery securities
- (5) Clear delegation of authority to subordinate staff members
- (6) Written confirmation of transactions for investments and wire transfers
- (7) Dual authorizations of wire transfers
- (8) Development of wire transfer agreement with the lead bank and third-party custodian

Accordingly, the City Manager shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures or alternatively, compliance should be assured through the Town's annual independent audit.

#### **1.03.140 Brokers and Dealers.**

a. In selecting brokers or dealers, the City Treasurer or designated staff member shall select brokers representing primary dealers in government securities that have established offices and order desks within the State of California.

b. Before accepting funds or engaging in investment transactions with the Town, the supervising officer at each depository and recognized securities broker shall submit a certification that the officer has reviewed the investment policies and objectives and agrees to disclose potential conflicts or risks to public funds that might arise out of business transactions between the depository or the broker and the Town of Colma.

[Adopted Res. 2000-75, 12/13/2000]

#### **1.03.150. Safekeeping.**

a. The Town shall contract with a bank or banks for the safekeeping of securities which are owned by the Town as a part of the investment portfolio. Staff shall periodically review the performance and pricing of the third-party, safekeeping agent services.

b. All investment securities (except the collateral for certificates of deposit in banks or Savings and loan associations) purchased by the Town shall be held in third-party safekeeping by an institution designated as primary agent. The primary agent shall issue a safekeeping receipt to the Town listing the specific instrument, rate, maturity and other pertinent information.

[Adopted Res. 2000-75, 12/13/2000]

#### **1.03.160. Collateralization.**

a. Deposit-type securities (i.e. certificates of deposit) shall be collateralized through the State of California collateral pool requirements for any amount exceeding FDIC coverage in accordance with California Government Code Section 53652 and/or 53651(m)(1). Collateral for certificates of deposit in savings and loans shall be herewith the Federal Home Loan Bank. Collateral for certificates of deposit in banks shall be held in the Town's name in the bank's

trust department, (if a safekeeping agreement has been executed) or, alternatively, in the San Francisco Federal Reserve Bank.

b. Other securities shall be collateralized by the actual security held in third party safekeeping by the primary agent.

[Adopted Res. 2000-75, 12/13/2000]

#### **1.03.170. Class One Investments & Criteria**

The following is a summary of the authorized Class One Investments and applicable limitations to each. The City Treasurer is authorized to invest in any of these instruments without prior approval of the City Council.

<i><b>Type</b></i>	<i><b>Issuers</b></i>	<i><b>Backing</b></i>	<i><b>Limits</b></i>	<i><b>Maturity</b></i>
U.S. Treasury Bills, Notes and Bonds	U.S. Treasury	U.S. Treasury	None	2 years
U.S. Government Agency, e.g.: U.S. Treasury, FNMA or GNMA securities	U.S. Gov't Agency	U.S. Treasury	50% of Portfolio	2 years
Local Agency Investment Fund	California	State Fund		On Demand
San Mateo County Pooled Investment Fund	County of San Mateo			On 30 days demand
Savings Accounts, Deposit Accounts, and Certificates of Deposit up to \$100,000 with any one bank or savings & loan associations	National Banks or S&Ls in California	FDIC Insurance	Not more than \$100,000 in any one institution; 25% of Portfolio	2 years

[Adopted Res. 2000-75, 12/13/2000; Amended by Res. 2003-34, 6/25/2003]

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### 1.03.180. Class Two Investments & Criteria

The following is a summary of the authorized Class Two Investments and applicable limitations to each. The City Treasurer may not invest in any of these instruments without first obtaining prior approval of the City Council. The total of all Class Two investments may not exceed 40% of the Town's investment portfolio.

<i>Type</i>	<i>Location</i>	<i>Backing</i>	<i>Limits</i>	<i>Maturity</i>
Banker's Acceptances	National banks & reporting dealers with an A-1 rating or better in California	Accepting Bank's Assets	20% of portfolio	180 days
Certificates of Deposit over \$100,000 with banks or savings & loan associations	California	Institution collateral in the amount of 102% of amount invested	20% of portfolio	5 years
Money Market funds	Institutions rated in the highest category by Moody's Investor Services	Issuing institution	20% of portfolio	
Commercial paper	Domestic corporations having and A-1 or P-1 rating or better	Issuing corporation's Assets	20% of portfolio	270 days
Mutual funds invested in securities and obligations authorized by law	Qualified <sup>(1)</sup> diversified management companies.	Mutual Funds' assets	20% of portfolio	
Obligations authorized by law	Companies (1)			

(1) The company must have attained the highest ranking by 2 of 3 largest national rating agencies, have an SEC-registered investment advisor, and had 5 years experience in public entity investing.

maximum of 10 total transactions per month.

The Town of Colma uses this fund when interest rates are declining as well as for short-term investments and liquidity.

#### MISCELLANEOUS

### 1.03.200. Glossary of Eligible Investments.

a. *Local Agency Investment Fund (L.A.I.F.).* The L.A.I.F. was established by the state of California to enable treasurers to place funds in a pool for investments. There is a

limitation of \$15 million per agency subject to a

b. *U.S. Treasury Bills.* Commonly referred to as T-Bills, these are short-term marketable securities sold as obligations of the U.S. Government. They are offered in three month, six month, and one-year maturities. T-Bills do not accrue interest but are sold at a discount to pay face value at maturity.

c. *U.S. Treasury Notes.* These are marketable, interest-bearing securities sold as obligations of the U.S. Government with original maturities of one to ten years. Interest is paid

semi-annually.

d. *U.S. Treasury Bonds.* These are the same as U.S. Treasury Notes except they have original maturities of ten years or longer.

e. *U.S. Government Agency Issues.* These include: 1) Issues which are unconditionally backed by the full faith and credit of the United States, 2) Issues which are conditionally backed by the full faith and credit of the United States and 3) Issues which are not backed by the full faith and credit of the United States.

i. Issues which are unconditionally backed by the full faith and credit of the United States include: Small Business Administration (SBA), General Services Administration (GSA).

ii. Issues which are not backed by the full faith and credit of the United States include: Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Banks for Cooperation (Co-ops), Federal Lands Banks (FLB), Federal Intermediate Credit Banks (FICB).

iii. While all the above issues are not unconditionally backed by the full faith and credit of the United States, they do in fact have defacto backing from the federal government, and it would be most unlikely that the government would let any of these agencies default on its obligations.

f. *Banker's Acceptances.* This is a negotiable time draft (bill of exchange) with a maturity of six months or less drawn on and accepted by a commercial bank. Banker's Acceptances are usually created to finance the import and export of goods, the shipment of goods within the United State and storage of readily marketable commodities. Under State Law, cities may not invest more than 30% of idle cash in Banker's Acceptances.

g. *Certificate of Deposit (CDs).* This is a receipt for funds deposited in a bank or savings and loan association for a specified period of time at a specified rate of interest. The first \$100,000 of a certificate of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC). CD's with a face value in excess of \$100,000 can be collateralized by Treasury Department Securities, which must be at least 110% of the face value of the CD's, in excess of the first \$100,000, or by first mortgage loans which must be at least 150% of the face value of the CD balance in excess of the first \$100,000.

h. *Repurchase Agreements (REPOS).* This is a contractual arrangement between a financial institution, or dealer, and an investor. This agreement normally can run for one or more days. The investor puts up his funds for a certain number of days at a stated yield. In return, he takes a given block of securities as collateral. At maturity, the securities are repurchased and the funds repaid plus interest. [The Town shall not invest in REPOS.]

i. *Commercial Paper.* These notes are unsecured promissory notes of industrial corporations, utilities and bank holding companies- Notes are in bearer form starting at \$100,000. State law limits a Town to investments in United States corporations having assets in excess of five hundred million dollars with an "A" or higher rating. Under state law, cities may not invest more than 15% of idle cash in commercial paper.

j. *Mutual Funds.* These are investment companies that make investments on behalf of individuals and institutions who share common financial goals. The portfolio must adhere to restrictions set forth in California Government Code Section 53601 et. al. regarding allowable investments and maturity lengths (unless further restricted by the Town's Investment Policy). The Code currently prohibits the utilization of mutual funds that invest in equity securities (i.e., corporate stocks and bonds, etc.). In effect the investor is delegating investment decisions to

the fund's professional money managers. An investor buys shares of the funds, each share representing an ownership in all the funds' underlying securities. These funds are very liquid, all or part of the share can be cashed in at any time for the current value of the investment which is recalculated daily. The investors per share calculation (known as "net asset value") can be determined by daily publication in the financial section of most major newspapers.

[Adopted Res. 2000-75, 12/13/2000]